

Message Text

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AMEMBASSY SEOUL

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AMEMBASSY JAKARTA

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TAGS: ECON, HK

SUBJECT: SUBSTANTIAL UPWARD REVISION OF HKG GROWTH ESTIMATE FOR
1976

REF: HONG KONG 2472 (NOTAL)

1. SUMMARY. HONG KONG FINANCIAL SECRETARY HADDON-CAVE
RELEASED NEW ESTIMATES OF THE ECONOMY'S PERFORMANCE ON
SEPTEMBER 3. THESE INCLUDED 16 PERCENT REAL GROWTH IN GDP AND
LESS THAN A 4 PERCENT INCREASE IN CONSUMER PRICES. THESE FIGURES
ARE SHARPLY BETTER THAN THE 9 PERCENT REAL GROWTH AND 6 PERCENT
INFLATION PREDICATED BY HADDON-CAVE IN HIS BUDGET SPEECH IN
FEBRUARY (REFTEL). END SUMMARY.

2. SINCE THE FINANCIAL SECRETARY'S FEBRUARY BUDGET SPEECH,
VARIOUS EXPERTS HAVE BEEN MAKING MORE AND MORE OPTIMISTIC
PREDICTION ON THE HONG KONG ECONOMY AS IT RESPONDED TO THE
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RECOVERIES IN THE U.S. AND ELSEWHERE WITH SUBSTANTIALLY INCREASED ACTIVITY. ALTHOUGH SOME GOVERNMENT SOURCES, INCLUDING THE GOVERNOR, HAVE INDICATED THAT THE BUDGET ESTIMATE WAS TURNING OUT ON THE LOW SIDE, THE NORMALLY CONSERVATIVE FINANCIAL SECRETARY MADE NEWS ON SEPTEMBER 3 IN HIS PEECH TO THE HONG KONG SOCIETY OF SECURITY ANALYSTS WHEN HE QUANTIFIED HIS NEW-FOUND EUPHORIC OPTIMISM IN DETAILED FIGURES THAT WERE SHARPLY HIGHER THAN ANY PREVIOUS ESTIMATE.

3. POINTING OUT THAT ECONOMIC ACTIVITY IN HONG KONG IS LARGELY DETERMINED BY DEMAND FOR IMPORTS BY HER MAJOR TRADING PARTNERS, HADDON-CAVE SAID THAT GROWTH FORECASTS HAD BEEN REVISED UPWARDS DURING THE LAST SIX MONTHS FOR THE U.S., THE U.K. AND GERMANY-HONG KONG'S THREE LARGEST MARKETS--AND JAPAN. AS A RESULT, HONG KONG'S EXPORTS ROSE BY 36 PERCENT IN VOLUME AND 51 PERCENT IN VALUE IN THE FIRST HALF OF 1976, COMPARED WITH THE SAME PERIOD OF 1975. FOR THE FULL YEAR, HE EXPECTED A 25 PERCENT INCREASE IN TOURIST EXPENDITURE AT CONSTANT PRICES RATHER THAN THE 13 PERCENT ESTIMATED IN FEBRUARY AND AN INCREASE OF 50 PERCENT IN NET EARNINGS FROM EXPORTS OF SERVICES INSTEAD OF THE 5 PERCENT FORECAST IN THE BUDGET SPEECH.

4. TOTALLING THE COMPONENTS, THE FINANCIAL SECRETARY PREDICTED AN INCREASE IN REAL GDP OF 16 PERCENT IN 1976, COMPARED WITH THE 9 PERCENT FORECAST IN HIS BUDGET SPEECH. HE ESTIMATED THE GDP DEFLATOR AT 9 PERCENT AND THE C.P.I. INCREASE AT 4 PERCENT, SAYING THAT THE UNUSUAL DISCREPANCY WAS CAUSED BY THE DIFFERING NQRES OF INCREASES IN EXPORT AND DOMESTIC PRICES.

5. TO SUM UP, HADDON-CAVE REFERRED TO THE TWO BASIC PRINCIPALS OF MANAGEMENT OF THE HONG KONG ECONOMY - EXTERNAL DETERMINATION AND LACK OF INTERFERENCE. HE SAID, "...THE REVISION OF THE BUDGET SPEECH FORECASTS CAN REALLY BE ATTRIBUTED TO TWO FACTORS. THE FIRST IS THE FASTER RATE OF GROWTH IN WORLD TRADE THAN WAS ENVISAGED IN THE ATMOSPHERE OF UNCERTAINTY WHICH PREVAILED AT THE END OF 1975. THE SECOND HAS BEEN THE UNHINDERED - DELIBERATELY UNHINDERED - UNCLASSIFIED

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ABILITY OF THE HONG KONG ECONOMY TO RESPOND QUICKLY TO THIS AND GET CLOSERR TO FULL CAPACITY OPERATION IN THE FIRST HALF OF 1976 THAN ORIGINALLY THOUGHT POSSIBLE."

6. COMMENT. WE HAVE NOTED MANY INDICATORS OF GREATLY INCREASED ECONOMIC ACTIVITY IN HONG KONG, SUCH AS LABOR

TIGHTNESS, INCREASING WAGES AND GROWING BACKLOGS. THE
STATEMENT OF THE FINANCIAL SECRETARY HAS NOW GIVEN STRONG
CONFIRMATION THAT, FOR HONG KONG, 1976 WILL INDEED BE A
BOOM YEAR
CROSS

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